

## Message Text

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ACTION ARA-10

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FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 3303

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

UNCLAS RIO DE JANEIRO 0503

E. O. 11652: N/A

TAGS: EFIN, BR

SUBJ: INFLATION IN BRAZIL: 1975

### SUMMARY

THE RATE OF INFLATION IN BRAZIL DECLINED MODESTLY IN 1975 COMPARED WITH 1974. THE GENERAL PRICE INDEX ROSE 29.4 PERCENT IN 1975 AS COMPARED WITH 34.5 PERCENT IN 1974. CONSUMER, WHOLESALE AND CONSTRUCTION PRICES SHOWED SMALLER RATES OF INFLATION. NATURAL DISASTERS PREVENTED BRAZIL FROM REGISTERING EVEN MORE IMPROVEMENT. EMBASSY CONCURS THIS MESSAGE.

### END SUMMARY

1. THE RATE OF INFLATION IN BRAZIL, AS MEASURED BY THE GENERAL PRICE INDEX PUBLISHED BY THE GETULIO VARGAS FOUNDATION, WAS 29.4 PERCENT IN 1975 AS COMPARED WITH 34.5 PERCENT IN 1974. THE DECLINE IN THE RATE OF INFLATION WAS EVIDENT IN VIRTUALLY ALL AREAS. THE GENERAL PRICE INDEX IS COMPOSITE OF THE GUANABARA (RIO DE JANEIRO) COST OF LIVING INDEX, A NATIONAL WHOLESALE PRICE INDEX AND A NATIONAL CONSTRUCTION COST INDEX. ALL 3 INDICES ARE COMPILED BY THE GETULIO VARGAS FOUNDATION, A SEMI-OFFICIAL ECONOMIC RESEARCH  
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INSTITUTE. THE GENERAL PRICE INDEX IS GENERALLY USED BY GOB

POLICY MAKERS AND PUBLICISTS AS THE PRIMARY BENCH MARK FOR MEASURING PROGRESS ON THE INFLATION FRONT. COST OF LIVING INDICES FOR A NUMBER OF BRAZILIAN CITIES ARE PUBLISHED BUT ONLY THE RIO AND THE SAO PAULO INDICES ARE CONSIDERED TO BE RELIABLE AND METHODOLOGICALLY SOUND.

2. THE RIO CONSUMER PRICE INDEX SHOWED AN INCREASE OF 31.2 PERCENT IN 1975 COMPARED WITH 33.8 PERCENT IN 1974. HOUSING SHOWED THE GREATEST INCREASE IN 1975 (52.8 PERCENT). GOOD, ANOTHER KEY COMPONENT OF THE INDEX, SHOWED A 26.6 PERCENT INCREASE IN 1975, LESS THAN THE INCREASE FOR THE AVERAGE. PUBLIC SERVICES SHOWED A 41.3 PERCENT INCREASE, THE SECOND HIGHEST OF THE 8 SUB-CATEGORIES OF THE INDEX.

3. WHOLESALE PRICES DURING 1975 INCREASED 29.3 PERCENT COMPARED WITH 35.4 PERCENT IN 1974. NON-FOOD PRODUCTS SHOWED A 25.4 PERCENT INCREASE WHILE FOOD PRODUCTS SHOWED A 33 PERCENT INCREASE, IN LARGE PART A RESULT OF THE JULY 1975 FROST WHICH SEVERELY AFFECTED AGRICULTURE PRODUCTION.

4. THE CONSTRUCTION COST INDEX, THE THIRD COMPONENT OF THE GENERAL PRICE INDEX, SHOWED A 24.1 PERCENT INCREASE IN 1975 COMPARED WITH A 31.8 PERCENT INCREASE IN PREVIOUS YEAR.

5. NOTE: ALL OF THE FIGURES GIVEN ABOVE ARE BASED ON THE "INTERNAL SUPPLY" INDEX. THIS IS THE INDEX OF COSTS IN THE LOCAL MARKET. THE VARGAS FOUNDATION ALSO PUBLISHES A GENERAL PRICE INDEX AND WHOLESALE PRICE INDEX WHICH INCLUDES PRICES OF EXPORTED PRODUCTS. HOWEVER, THE INTERNAL SUPPLY INDEX IS THE ONE USED FOR MOST ANALYTICAL PURPOSES.

6. COMMENT: THE FULL YEAR 1975 FIGURES, WHILE AN IMPROVEMENT OVER THE 1974 PERFORMANCE, ARE SUBSTANTIALLY ABOVE THE 20-25 PERCENT GOAL MENTIONED BY MANY GOB POLICY MAKERS AT THE BEGINNING OF 1975. TO A SIGNIFICANT DEGREE, THE FAILURE TO HOLD INFLATION TO CLOSER TO THE 25 PERCENT LEVEL IS THE RESULT OF THE JULY 1975 FROST WHICH SENT MANY FOOD PRICES SOARING, AND A PERHAPS OVERLY EXPANSIONARY MONETARY POLICY, PARTICULARLY DURING THE HAL OF THE YEAR. OTHER FACTORS ARE ALSO RESPONSIBLE. AS SEEN FROM THE GUANABARA COST OF UNCLASSIFIED

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LIVING INDEX, HOUSING COSTS SHOWED A SIGNIFICANT INCREASE OVER THE PREVIOUS YEAR. MANY HOUSING COSTS ARE OUTSIDE OF THE DIRECT CONTROL OF THE GOB AND THESE COSTS HAVE PROVEN DIFFICULT TO BRING UNDER CONTROL. THE OTHER FLAGRANT "OFFENDER" WAS PUBLIC SERVICES, WHICH ARE DIRECTLY UNDER THE GOVERNMENT'S CONTROL. THE ANNOUNCEMENT ON JANUARY 14, 1976, THAT INCREASE IN PUBLIC SERVICES WILL BE HELD TO 20 PERCENT DURING 1976 MAY WELL DEMONSTRATE THE DISSATISFACTION OF THE GOB WITH THE PRICE

PERFORMANCE OF THIS SECTOR DURING 1975.

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